

July 31, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

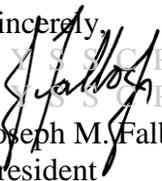
By e-mail: comments@pcaobus.org

Re: Staff Consultation Paper 2015-01, The Auditor's Use of the Work of Specialists

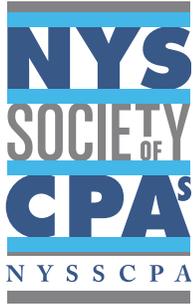
Dear Madame Secretary:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned consultation paper.

The NYSSCPA's SEC and International Accounting and Auditing Committees deliberated the consultation paper and prepared the attached comments. If you would like additional discussion with us, please contact Charles Abraham, Chair of the SEC Committee at (516) 620-8526, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
STAFF CONSULTATION PAPER 2015-01, *THE AUDITOR'S USE OF THE WORK
OF SPECIALISTS***

July 31, 2015

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New York State Society of Certified Public Accountants

Comments on

Consultation Paper 2015-01, *The Auditor's Use of the Work of Specialists*

The New York State Society of Certified Public Accountants appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists*, May 28, 2015 ("Consultation Paper").

As a state society, we do not represent one auditing firm or company. Our response represents the views of our membership based on the feedback from members and our general sense of our members' experiences. Accordingly our response is built upon varied observations, grounded in our technical knowledge and based on extensive experiences in public and private industry.

General Comments

Overall, we support those elements of the Consultation Paper that propose clarification of the existing standards and provide guidance for the work to be performed by the auditor and that will better protect investors through enhanced consistency in practice. We believe that any changes to PCAOB auditing standards should narrow the expectation gap between the accounting profession and users of financial statements and focus on objective criteria.

While we generally support improvements to AU sec. 336, *Using the Work of a Specialist*, (similar to the requirements under AU-C Section 500, *The Fourth Standard of Reporting*; ISA 500, *Audit Evidence*; AU-C Section 620, *Using the Work of an Auditor's Specialist*; and ISA 620, *Using the Work of an Auditor's Expert*) and how auditors should approach the use of specialists, we do not believe that it is necessary to rescind AU sec. 336. We believe that the audit procedures performed by the engagement team should create the same level of reliability on the financial statements whether the specialists are employed or are engaged either directly by the company or by the auditor. We also believe that the auditors should obtain an understanding of the methods and assumptions utilized, irrespective of the affiliation of the specialist.

While we understand that the PCAOB wants to enhance the standards and align with the IAASB and ASB, there also seem to be concerns about compliance with current standards (based on the results of PCAOB inspections). We note the responses of the IAASB¹ and FEE (Federation of European Accountants)² on the PCAOB consultation paper regarding *Auditing Accounting Estimates and Fair Value Measurements*, August 19, 2014. We believe that the opinions expressed therein apply here as well, in that alignment and a cohesive standard is

¹ PCAOB website, Response No 39, Prof. Arnold Schilder, Chairman, IAASB, Nov 21, 2014

² PCAOB website, Response No.4, Andre Killesse, President, Olivier Boutellis-Taft, Chief Executive, FEE.

desired, but that above all we believe that standards should remain on a high principles-based approach to allow practitioners to use a level of judgment. We are concerned equally that standards may become over-engineered in that public expectations may become unrealistic. For this reason, we support having non-mandatory application material and practice notes to allow for judgment instead of check-the-box lists.

We believe that it is necessary to maintain professional skepticism which includes challenging management's assumptions and an identification of significant risks of material misstatement.

Our view is that continued use of auditor's judgment is paramount and is a driving principle behind high-quality audits that are responsive to the risks of material misstatement.

Our responses to the specific questions posed in the Consultation Paper's request for comments are set out below and are consistent with these overarching concepts. We did not respond to questions 3, 4, 24 – 26, 32, 39, 40 and 42 – 48.

Responses to Selected Questions

1. Does the information presented in Section III accurately characterize current practice? Are other aspects of current practice – at larger and smaller accounting firms – relevant to the staff's consideration of potential standard setting in this area?

We agree that, in general, the practice, as described, characterizes current practice. Section III of the staff consultation paper also stated that based on inspected audits; smaller audit firms are more likely to utilize company specialists. Smaller audit firms might be more likely to utilize auditor-engaged specialists in circumstances in which their smaller clients might not have engaged/employed a specialist at all.

2. Are there any challenges associated with current practice, especially for those accounting firms that have incorporated the standards of the IAASB or of the ASB into their audit methodologies?

The challenges associated with current practice appear to be more associated with the ability to supervise the work of a specialist directly. It may also be more difficult to understand the procedures used by specialists hired by the company as company staff may interface between the specialist and the auditors. It would be natural for auditors not to fully "re-create" the work of a specialist and to place reliance on the work done as experts. It can be argued that the use of a specialist, at its basic level, indicates that the audit engagement team does not have the expertise to do it itself.

The challenges associated with meeting the requirements of the ASB or IAASB should be fairly consistent with the challenges of meeting PCAOB requirements as ASB and IAASB standards are fairly similar although enhanced. For example, paragraph 6 of ISA 620 requires the auditor when using a specialist to obtain knowledge about the nature, scope, and objectives of the

specialist's work including relevance and reasonableness of specialist conclusions, assumptions and methods and relevance, completeness and accuracy of source data.

Further, ISA 500, *Audit Evidence*, paragraph 4, requires the auditor to determine the significance of the work performed by the specialist, evaluate competence, capabilities and objectivity, and appropriateness of the work as audit evidence.

Despite the 2013 findings of the IAASB (Clarified International Standards on Auditing – Findings from the Post-Implementation Review 44-45 (July 2013), of ISA 620), which found inconsistency in the current procedures and insufficient testing and follow-up; the standards themselves appear to be adequate. It is the execution and compliance with the standards that appear to be the concern. We believe that these findings can be addressed with additional non-authoritative guidance and examples (*i.e.* Staff Practice Alerts) to clarify expectations and enhance the documentation of the procedures and evaluations performed.

5. For accounting firms that use the work of an auditor's engaged specialist:

a. What process does the firm use to assess the knowledge and skill of a specialist before engaging the specialist?

Prior to utilizing an auditor-engaged specialist, the audit firm reviews the experience of the specialist's firm in similar circumstances (this includes a consideration of both the depth of expertise and how recent the experiences). This requires a detailed discussion regarding the type of assignment, the scope of the work to be performed, and the risks associated with the assignment. In addition, the firm will evaluate the credentials of the specialists that are expected to be assigned to the engagement. The firm might request a sample report to ensure that there is sufficient detail in order to perform the procedures prescribed by AU sec. 336. A firm will conduct online research including a review of the website of the specialist to ensure that the firm has an understanding of the specialist's reputation. In addition, if the auditor has significant experience in the industry and has worked with other clients in the company's line of business, the reputation of the specialist might be well-known.

b. Are there circumstances when the auditor performs procedures in addition to those specified in AU sec. 336 to evaluate the work of the specialist (e.g., performs procedures similar to those in Auditing Standard No. 10)? If so, describe those circumstances and the reasons for using that approach. Do senior specialists in the firm (if any), such as managers and partners, assist in evaluating the engaged specialist's work?

No, we have not observed such circumstances. In our experience, the auditor-engaged specialist has been vetted prior to the engagement, and there is a very low probability that additional procedures beyond AU sec. 336 would be required.

c. How does the firm apply the requirements of AU sec. 336, in conjunction with the risk assessment standards, to the use of the work of an engaged specialist?

The firm generally applies the guidance in AS No. 8, *Audit Risk*, through AS No. 15, *Audit Evidence*, to assess the risks associated with the particular financial statement line item, prior to

the application of AU sec. 336. In the planning process, the firm determines which areas have risks of material misstatements and designs procedures to be responsive to those risks. For example, in the jewelry business, a firm considers risk assessment including understanding the entity, fraud risks, existence and valuation of inventory. This risk assessment would lead to a conclusion regarding the need for a specialist. If the fact pattern or circumstances change, the risk assessment is revisited to ensure that the procedures performed are still responsive to the risks identified. In general, we have observed that the use of an auditor-engaged specialist is determined during the planning phase.

d. In using the work of an engaged specialist, does the firm have access to all the methods and models of that specialist or are there instances when access to proprietary methods or models is restricted by the specialist or the specialist's employer?

Generally, if the firm required access to the models of the specialist, that would be discussed and agreed upon prior to the engagement. There are instances in which the models utilized by the specialist are proprietary or the models utilized would require the installation of proprietary software to which the auditor is not provided access. Generally, firms have not required access to all models utilized by the specialist; however the specialist's report is specific and detailed as to a description of the models and assumptions utilized which allows an auditor to obtain an understanding of the methods and assumptions utilized by the specialist.

6. For accounting firms that use the work of a company's specialist:

a. What are the circumstances in which the firm uses the work of a company's specialist? If so, describe the related audit procedures performed in connection with the specialist's work. Are there circumstances when the auditor performs procedures in addition to those specified in AU sec. 336 to evaluate the work of the specialist? If so, describe those circumstances and the reasons for using that approach.

In most cases, the firm will use the work of a company's specialist when it is satisfied with the specialist's professional qualifications and has not taken any exception to the nature and quality of the work performed by the specialist. The related audit procedures performed are similar to those listed in our response to question 5a (with additional consideration given to the relationship between the specialist and the company as discussed in AU sec. 336.10 and 336.11).

There are circumstances where the auditor might perform procedures in addition to those prescribed in AU sec. 336. Examples of such circumstances would be (a) scenarios in which there is a relationship between the specialist and the client that "might" impair independence, (b) the risks involved in the audit area are so significant that the auditor believes additional procedures are warranted to reduce the risks of material misstatement, (c) the specialist's assumptions or findings are deemed unreasonable, *etc.*

b. Does Figure 1 in Section II.A accurately describe the activities for which the auditor uses the work of a company's specialist?

Yes, Figure 1 in Section II.A accurately describes examples of the activities for which the auditor uses the work of a company's specialist.

Are there other activities in which the auditor uses the work of a company's specialist that should be considered within the scope of this project?

No, but it should be noted that there is an evolving development of sustainability statements under the Sustainability Accounting Standards Board (SASB). However, it is premature to include these types of activities in the scope of this project.

c. In what circumstances has the firm concluded that the findings of the company's specialist were unreasonable and therefore performed additional procedures, as required by AU sec. 336? In those circumstances, what procedures did the auditor perform?

During the course of the audit, the auditor may come across evidential matter (such as unreasonable methodologies, improbable assumptions developed by the specialist, *etc.*) that brings into question the findings of the company's specialist. Under such circumstances, the auditor will not place any reliance, or will place less reliance, on the work performed by the company's specialist, and will have to determine an alternative to reduce the risk of material misstatement. Depending on the significance of the risks of material misstatement, alternatives might include requesting that the specialist re-work his or her analysis utilizing different assumptions/methodologies, the auditor utilizing his or her own specialist to develop an independent estimate, or requiring management to engage another specialist.

d. How does the firm currently apply the requirements of AU sec. 336, in conjunction with the risk assessment standards, to the use of the work of a company's specialist?

Our response would be similar to our response to question 5c. Also, as noted in our response to question 6a, additional consideration is given to the relationship between the specialist and the company during the risk assessment process.

7. This section provides the staff's views about the need to improve the standards based on issues related to the standards, inspections observations, and the views of the SAG. Do commenters agree with the staff's analysis of the need to improve standards? Are there other issues the staff should consider with respect to this need?

We agree that there is a need to improve the AU sec. 336 auditing standard on using the work of a specialist. A fundamental issue is the requirement that the auditor evaluate the work of the specialist. The specialist possesses the skills and qualifications that the auditor admittedly does not usually possess; so, additional, clearer guidance is needed on how an auditor can conclude if he or she is qualified to "evaluate" in such circumstances.

AU sec. 336 should be improved by (a) better alignment with the risk assessment standards, and (b) by adding additional guidance related to the considerations an auditor must make in connection with the engagement of an auditor's specialist. However, we do not believe that an auditor-engaged or company engaged/employed specialist needs to have a level of supervision

that is similar to AS No. 10, *Supervision of the Audit Engagement*. In addition, we would not be opposed to adding specificity in AS No. 10 regarding the use of specialists, as long as the revisions continue to be in a principles-based approach that retains auditor judgment and scalability.

We do not believe that the information provided by the company's employed specialist should be treated as if it were information coming from the company itself in all cases (for example there are scenarios in which the company-employed specialist works as part of a team of specialists with a mandate to provide such analyses on a regular basis, is not directly involved in the financial reporting process, *etc.*). It is not necessary to mandate such a requirement, but perhaps the language as stated in AU sec. 336.11, "if the auditor believes the relationship might impair the specialist's objectivity, the auditor should perform additional procedures...", can be strengthened to account for the PCAOB staff's concerns.

8. When an auditor obtains an understanding of the methods used by the company's specialist:

a. If the auditor has access to the specialist's methods (or models), is that access at a sufficiently detailed level (as opposed to a general level, such as a website description) to allow the auditor to obtain sufficient appropriate audit evidence?

It has been our experience that most specialist reports contain sufficient detail to allow the auditor to obtain sufficient appropriate audit evidence.

b. If the auditor does not have such access, how does the auditor obtain sufficient appropriate audit evidence regarding the relevant assertion?

The company should locate a specialist who will provide sufficient detailed access, or the auditor should perform additional procedures utilizing professional judgment (including considering whether an auditor-employed or engaged specialist is necessary) in order to obtain sufficient appropriate audit evidence. Typically, these factors are identified and resolved prior to the commencement of the audit engagement.

9. Are revisions to PCAOB standards the most appropriate way to address the issues as discussed in this staff consultation paper? Are there other alternatives that should be considered?

Targeted revisions to the current PCAOB standards in a principles-based approach are the most appropriate way to address the issues as discussed; supplemented (as needed) with PCAOB staff guidance and examples. We believe that the most appropriate method to accomplish the Board's goal is to revise AU sec. 336, instead of developing a separate auditing standard, extending the requirements of AS No. 10, or rescinding AU sec. 336.

10. Should the auditor perform the same procedures when using the work of an auditor's engaged specialist as those required for an auditor's employed specialist?

No. The auditor should modify procedures when the auditor's specialist has been engaged and is not the auditor's employee. Different procedures would be required because the engaged specialist would not be familiar with some basic concepts of auditing and firm quality control procedures that would be relevant (such as the extent of sufficient appropriate audit evidence). The extent to which an auditor's employed specialist is familiar with these matters also needs to be considered. Illustrations of modified procedures should be provided.

Auditors should at all times be aware of the credentials of the person involved as a specialist, whether engaged or employed. Documentation should be provided as to why a particular person or group is selected to assist in a specific engagement. To the extent that the firm has employed specialists, baseline credentials should be established, as well as an understanding of the basic firm procedures and the requirements of the engagement.

When an outside specialist is engaged, the procedures that the specialist uses should be indicated in the scope of services, reviewed for consistency with the general firm approach and/or tailored as needed to the specific engagement. The baseline requirements of care should be met as the engagement of an outside specialist may indicate a need beyond the internal expertise of the firm.

11. Are there other considerations related to the alternatives presented that the staff should be aware of?

No. We are not aware of any other considerations related to the alternatives presented.

12. Are there other alternatives related to the auditor's use of the work of an auditor's specialist that would result in the consistent treatment of the work of an auditor's employed and engaged specialist? If so, explain the other alternatives.

No. There do not appear to be any other practical alternatives.

13. Are there any limitations on an auditor's ability to treat the work of an engaged specialist the same way as that of an employed specialist?

No. We do not believe there are limitations on treating the work of an engaged specialist the same way as the work of an employed specialist as appropriate audit evidence. However, we do believe that there are limitations in the ability to supervise an engaged specialist versus an employed specialist. Any revisions to the current standards should consider and reflect this limitation.

14. Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist when evaluating the reliability of information provided by that specialist? If so, how might the company's use of the work of a competent and objective specialist under the potential alternatives affect the nature, timing, and extent of the auditor's procedures?

We believe it is appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist when evaluating the reliability of information provided by that specialist. If the company employs a competent and objective specialist, the auditor should be able to utilize the rules for the use of an outside expert. It is our belief that if the auditor will rely on the expert's work, it is imperative that the skills, knowledge and objectivity of the expert be challenged and documented by the auditor. Should the auditor be dissatisfied, additional procedures should be performed based on the auditor's judgment to reduce the risk of material misstatement to a level acceptable to the auditor.

We believe that retaining the procedures in AU sec. 336 in the first alternative is preferable for this area. The auditor's prior knowledge and familiarity with this standard will make any transition less cumbersome and not require significantly more audit work. We do not believe that the proposed eliminations of certain language would be of any significant benefit. We agree that the auditor should be required to evaluate the reasonableness of significant assumptions and methods because this could have a material effect on the financial statements.

In alternative two, we do not believe that rescinding AU sec. 336 is a reasonable alternative. Specific guidance related to the use of a company's specialist is necessary and positively impacts audit quality. Without AU sec. 336, we believe that there will be more inconsistency in practice as practitioners will have less guidance regarding using the work of specialists.

15. How do auditors currently obtain an understanding of the assumptions and methods used by a specialist under AU sec. 336?

We believe that generally, auditors have discussions with the specialist in order to gain an initial understanding of the methodology and the source of the assumptions. They also review the assumptions and methods used for reasonableness. We have noted instances in which the auditor will consult with his or her firm expert or an expert he or she has worked with before outside the firm to see if the assumptions and methods used are reasonable under the circumstances. This can be more easily accomplished for more common valuations such as intangible assets in business acquisitions and purchase price allocations. This becomes more difficult when related to areas that can be significantly more subjective such as the valuation of derivatives. The auditor, in addition to the steps previously mentioned, may try to find similar items in other public filings to get some comfort as to the assumptions, methods and results. The auditor might also hire his or her own outside expert to assist.

16. Should the work of a company's specialist be treated as audit evidence the same way as other information provided by the company? Are there concerns associated with more rigorous testing of the work of a company's specialist that may result from this approach? For example, would auditors increasingly need to employ or engage specialists to perform work to assist the auditor with such testing?

We do not believe that the work of a company's specialist should be treated as company-provided audit evidence in all cases. If the audit firm has satisfied itself as to qualifications, objectivity, abilities, and reasonableness of the specialist and his or her work, this should serve as acceptable evidence. If the auditor were required to treat the company specialist's work as

information provided by the company, it would probably lead to the auditor increasingly needing to employ or engage specialists to perform work to assist with testing the work of a company's specialist. We do not believe this would be a cost-effective and practical requirement that would be of significant benefit.

18. Are there any practical concerns with rescinding AU sec. 336? The staff is especially interested in the views of auditors, companies that typically use the work of specialists, and specialists, including those in specialized industries (such as oil and gas and environmental engineering). Are there other challenges associated with testing the work of a company's specialist?

As we stated as part of our response to question 14, we do not believe that rescinding AU sec. 336 is a reasonable alternative. Specific guidance related to the use of specialists is necessary and positively impacts audit quality. Without AU sec. 336, we believe that there will be more inconsistency in practice as practitioners will have less guidance regarding using the work of company specialists.

19. Are the potential definitions of an auditor's specialist and a company's specialist appropriate? If not, what would be alternative definitions for those terms?

The potential definitions are appropriate except that there should be additional clarity as to how the Board defines "specialized knowledge in a field of expertise other than accounting or auditing" as that would lead to more consistency in practice.

20. Is it appropriate to retain the definition of a specialist from AU sec. 336 or is there a need to update the definition to reflect the increased use of the work of persons with specialized knowledge or skill in accounting and auditing? For example, should that definition also include those with specialized knowledge or skill in income taxes or IT?

While income taxes and IT have become more complex, it is part of the risks identified in the audit planning process, and the audit procedures performed are designed to address those risks. Income taxes are an integral part of the financial reporting process of a company, and part of the audit (if deemed to be a significant or fraud risk). In the same regard, IT continues to be an integral part of the financial reporting infrastructure (and has gained additional focus in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control—Integrated Framework*, May 2013). The definition should continue to exclude those with specialized knowledge or skill in income taxes or IT who are covered under AS No. 10.

21. Is it clear what constitutes a specialized area of accounting and auditing? For example, are persons with specialized knowledge or skill in regulatory compliance (e.g., related to audits of brokers and dealers) considered to be persons with specialized knowledge or skill in accounting and auditing? Should the staff provide clarification about what constitutes a specialized area of accounting and auditing? Does the discussion in this staff consultation paper appropriately describe when third parties may be inside or outside the scope of the potential definition of an auditor's specialist?

We believe that it would be beneficial to have additional clarity regarding what constitutes a specialized area of accounting and auditing.

In the example provided above, we would not deem persons with specialized knowledge or skill in regulatory compliance to be persons deemed to be specialists in the AU sec. 336 context. We believe that an auditor requires specialized knowledge in regulatory compliance in order to perform the audits of brokers and dealers for example, and it should be excluded from the definition of a specialist. However, if a law firm were providing services related to interpreting a provision in The Investment Company Act of 1940, we would consider that law firm to be a specialist (as implied by AU sec. 336.02).

We believe that the discussion in the Consultation Paper appropriately describes when third parties may be in the scope of the definition of an auditor's specialist. We agree with the thought process that a third party pricing service would not be deemed to be a specialist.

22. Are the potential requirements to evaluate the knowledge and skill of an auditor's specialist clear and appropriate? Are there other alternatives to accomplish the objectives? Are there other factors that the auditor should consider?

Guidance is needed on how to deal with very technical aspects of a specialist's work that an auditor may be incapable of evaluating. All of the inquiry and analysis of a specialist's experience, objectivity, competence *etc.* is not going to enable an evaluation of a highly specialized conclusion or calculation that is beyond the auditor's capabilities and experience or expertise. We have also observed that specialists in certain fields do not have any professional certifications as there might not be a certification or industry license required/applicable in that particular field. In these cases, the experience of the specialist in the type of work under consideration is weighed heavily in the evaluation.

23. Are the matters described in the potential requirements on which the auditor and an auditor's specialist should reach an agreement sufficient and appropriate? If not, what other matters should be required to be specified in the agreement before the auditor's specialist performs work to assist the auditor?

Yes, the matters described appear to be sufficient and appropriate.

27. Do the potential requirements appropriately reflect what the auditor's responsibilities should be when an auditor's specialist develops an independent estimate? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?

Yes. The potential requirements reflect the auditor's responsibilities when an auditor's specialist develops an independent estimate; however we believe that the guidance should not be mandatory (*i.e.* utilizing the word "should"). These revisions should be subject to the auditor's

considerations of risks, rather than being mandatory. For example, it would be difficult to determine what is generally accepted in the specialist's field of expertise in all scenarios without having to consult a second set of experts to confirm general practice or additional research or procedures. There are similarities between the potential requirements in the Consultation Paper to the appendices of AU-C Section 620 (paragraphs A35 to A42), that offer the auditor interpretations rather than mandatory requirements.

28. Do the potential requirements appropriately reflect what the auditor's responsibilities should be when an auditor's specialist tests the company's methods and significant assumptions? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?

Yes. Our response regarding when the auditor's specialist tests the company's methods and significant assumptions is similar to our response to question 27.

29. Do the potential requirements appropriately reflect what the auditor's responsibilities should be when the auditor evaluates the results and conclusions of the work of an auditor's specialist? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?

Yes. The potential requirements reflect the auditor's responsibilities when the auditor evaluates the results and conclusions of the work of an auditor's specialist. We don't think this should differ from current practice (or practice in accordance with ISA 620 or AU-C Section 620), in that the conclusions should "reasonableness-check", support the relevant financial statement assertions and be consistent with evidence from other audit procedures performed. It is possible that the focus of current practice does not link adequately or document these assumptions sufficiently and, upon review, enhancements would be required. Also refer to our response to question 27.

30. Do the potential requirements provide appropriate direction for the auditor's consideration of any limitations, restrictions, and caveats in the report of an auditor's specialist?

We believe that more interpretive guidance is needed on the auditor's consideration of such limitations, restrictions, and caveats in the report of an auditor's specialist, and on the possible effect on the auditor's report.

31. Are the potential requirements for evaluating the work of an auditor's specialist appropriate for all types of specialists used in audits (e.g., valuation specialist, actuary, geologist, lawyer, or engineer)? If not, how should the potential requirements be tailored?

A potential problem which currently exists and could continue to exist is whether the auditor can evaluate the specialist's methods, assumptions and conclusions fully given that the auditor is an auditor and not a specialist. It is unfeasible for an auditor to possess sufficient knowledge to fully evaluate the appropriateness of methods (and whether they are generally accepted) in fields in which an auditor is not an expert.

33. Are the potential requirements under the enhanced objectivity approach for the auditor's use of the work of an engaged specialist appropriate and feasible?

We are in agreement for the need for guidance related to evaluating the objectivity of the auditor's engaged specialist. However, certain aspects of the potential requirements might be challenging for a specialist to provide. For example, the potential requirement to obtain a written description regarding financial relationships appears to be a simple matter; however there are some specialist firms that do not have systems in place to provide accurate information regarding the ownership of securities by its employees, prior employment history, *etc.* In our experience, such financial relationships are generally not tracked by specialists, yet other factors such as "business relationships" are easily available.

34. Should the auditor's engaged specialist (and his or her employer) be required to meet the independence criteria of Rule 2-01? Are there certain types of specialists that would not be able to satisfy these criteria? Could these criteria affect the availability of specialists?

We believe that an auditor's engaged specialist (and his or her employer) should be independent and objective. However, we do not believe that he or she should be required to meet the independence criteria of Rule 2-01. Rule 2-01 is designed to ensure that the auditor is qualified and independent. Specialists might not be able to provide information regarding any investments in the audit clients, loans/debtor-creditor relationships, credit cards, *etc.* easily. As stated in our response to question 33, we are generally supportive of an enhanced objectivity evaluation approach; however, Rule 2-01 was not intended to evaluate the independence of engaged specialists. In practice, it would be difficult to do such an evaluation.

35. Are the potential requirements for the auditor to obtain information regarding business, employment, and financial relationships between the auditor's specialist (including his or her employer) and the company appropriate? If not, should other relevant factors be added to the potential enhanced objectivity requirements? For example, should the potential requirements take into account information barriers or other controls to address conflicts of interest at a specialist's firm?

Please refer to our responses to questions 33 and 34. In addition, we would like to comment on page 51 of the Consultation Paper which states that if "a specialist is employed by a financial institution that is involved in selling or structuring financial instruments issued by the company" in the Staff's view it would impair objectivity. However, we believe that certain financial institutions have put in place information barriers (*i.e.* between their research and underwriting departments), that could lead an auditor to believe that the specialist can be objective.

36. Are the potential requirements for the auditor to evaluate the objectivity of an auditor's specialist appropriate? Is it appropriate to apply the reasonable investor test as an overarching principle in assessing the specialist's objectivity? If not, are there other relevant factors that would be helpful to add to the potential requirements? For example, should the potential requirements take into account "threats" to objectivity and "safeguards" to reduce the threats, as provided in ISA 620?

Please refer to our responses to questions 33 and 34. It is appropriate to apply the reasonable investor test as an overarching principle in assessing the specialist's objectivity. If the potential requirements took into account some of the pertinent concepts from ISA 620, it would be appropriate.

37. Does the enhanced objectivity approach provide sufficient assurance that the work of an auditor's engaged specialist will not be influenced by business, employment, or financial relationships?

The enhanced objectivity approach is a reasonable approach that should enable the auditor to conclude that the specialist would be objective. However, we note that there are certain concerns depicted in our response to question 33 that should also be considered.

38. Is the potential requirement that the auditor obtain information about the process used by the auditor's engaged specialist to formulate the responses to the auditor's request for information appropriate and sufficiently clear? If not, are there other relevant factors that would be helpful to add to the potential requirement?

We believe that additional clarity is required regarding what information is necessary and what will be deemed appropriate regarding the process used by the auditor's engaged specialist to formulate responses to the auditor's questions related to relationships and interests. In some instances in which the specialist might not have systems in place to track such information, the process may be limited to inquiry alone. With the varied types of specialists and sizes of their companies, it is difficult to assess what "process" would be acceptable to an auditor. In addition, it will be challenging for an auditor to dictate the type of process that a specialist needs to have in place.

41. What are the likely economic impacts, including benefits and costs, of the potential alternatives discussed in this staff consultation paper? Are there any unintended consequences not already identified that might result from the alternatives?

Our general belief is that the economic impacts, both benefits and costs, cannot be reasonably determined. In our experience, expanded procedures generally result in increased costs. In addition, as we discussed in the general comments, we believe that when auditing standards become too prescriptive, the profession runs the risk of deteriorating audit quality. Mandatory requirements impede the risk-based design of audit procedures and unintentionally promote a "checklist" mentality.